

## Message Text

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ACTION SS-25

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 947

C O N F I D E N T I A L CARACAS 11995

EXDIS

E.O. 11652: GDS

TAGS: ENRG VE

SUBJECT: PETROLEUM REVERSION - PHILLIPS

REF A. CARACAS 11160; B. CARACAS 11708

1. ORVIL HORTON, THE PHILLIPS MANAGER HERE, CALLED ON ME NOV 18 TO REVIEW HIS COMPANY'S STATUS. THE FOLLOWING WAS GIVEN TO ME AS PROPRIETARY INFORMATION AND NOT FOR DISSEMINATION TO THIRD PARTIES.

2. PHILLIPS' MAJOR PROBLEM ALL ALONG HAS BEEN THE DEDUCTIONS THE LAW PROVIDES FOR "DRAINAGE". HORTON SAID THAT MINISTER OF MINES HERNANDEZ HAD OFFERED TO ALLOW THE COMPANY TO EXPENSE THESE DEDUCTIONS ON ITS TAX RETURN (AS HE TOLD ME HE WOULD - REF B.) (INTERESTINGLY, MINISTER OF STATE PEREZ GUERRERO WAS AN ACTIVE PARTICIPANT IN THE MEETING AT WHICH THAT STATEMENT WAS MADE.) PHILLIPS CONDITIONED ITS ACCEPTANCE OF THE COMPENSATION OFFER ON RECEIPT OF WRITTEN CONFIRMATION. THE MINISTRY OF FINANCE HAS NOW PROVIDED THAT CONFIRMATION, PROBABLY, IN HORTON'S OPINION, WITH THE SPECIFIC APPROVAL OF THE PRESIDENT.

3. PHILLIPS WILL RECOVER 70PERCENT OF THE DRAINAGE DEDUCTIONS THROUGH THE TAX WRITE-OFF. (THE INCOME TAX RATE ON THE OIL COMPANIES IS 70PERCENT). AS WE HAVE REPORTED, THE COMPANIES WERE PERMITTED TO CALCULATE THEIR AVERAGE PROFIT PER BARREL OVER THE PERIOD OF SO-CALLED "DRAINAGE" AS THE BASIS FOR THE DEDUCTIONS. IT IS OF INTEREST THAT PHILLIPS CAME UP WITH 16CENTS PER BARREL AFTER  
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APPLYING A THEORETICAL 8 PERCENT RETURN TO ITS UNAMORTIZED INVEST-

MENT.

4. HORTON SAID THAT PHILLIPS IS CLOSE TO AGREEMENT ON A TECHNOLOGY CONTRACT. HE EXPECTS TO SIGN THE COMPENSATION "ACTA" NEXT MONDAY AND THE CONTRACT BY DEC 15. THE REMAINING PROBLEM IS THE OFF-TAKE CONTRACT. PHILLIPS HAS SUBMITTED AN OFFER BUT THE MINISTRY HAS BEEN UNWILLING TO TALK PRICES SERIOUSLY BEYOND ASSERTING THAT THE FIGURES ADVANCED BY PHILLIPS ARE TOO LOW. THE MIN HAS INDICATED THAT A PRICE SCHEDULE FOR THE FIRST QUARTER OF CY '76 WILL BE OFFERED ON DEC 1, SUBJECT TO NEGOTIATION AND FINAL AGREEMENT BY DEC 15. HORTON FEARS THAT VENEZUELAN PRICES WILL BE SET TOO LATE (PROBLEMS OF ARRANGING TANKERS AND THE LIKE) AND/OR AT AN UNREALISTICALLY HIGH LEVEL AND THAT THE INEVITABLE DROP IN OFF-TAKE DURING EARLY 1976 WILL BE LAID TO A PLOT BY THE INTERNATIONAL OIL COMPANIES.  
SHLAUDEMAM

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